

Becoming Globally Relevant: Sourcing Dairy from Around the World

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Confidential to Fonterra Co-operative Group

The background of the slide features a series of overlapping, flowing shapes in various shades of blue and green, creating a sense of movement and depth. The colors transition from dark blue on the left to lighter blue and green on the right.

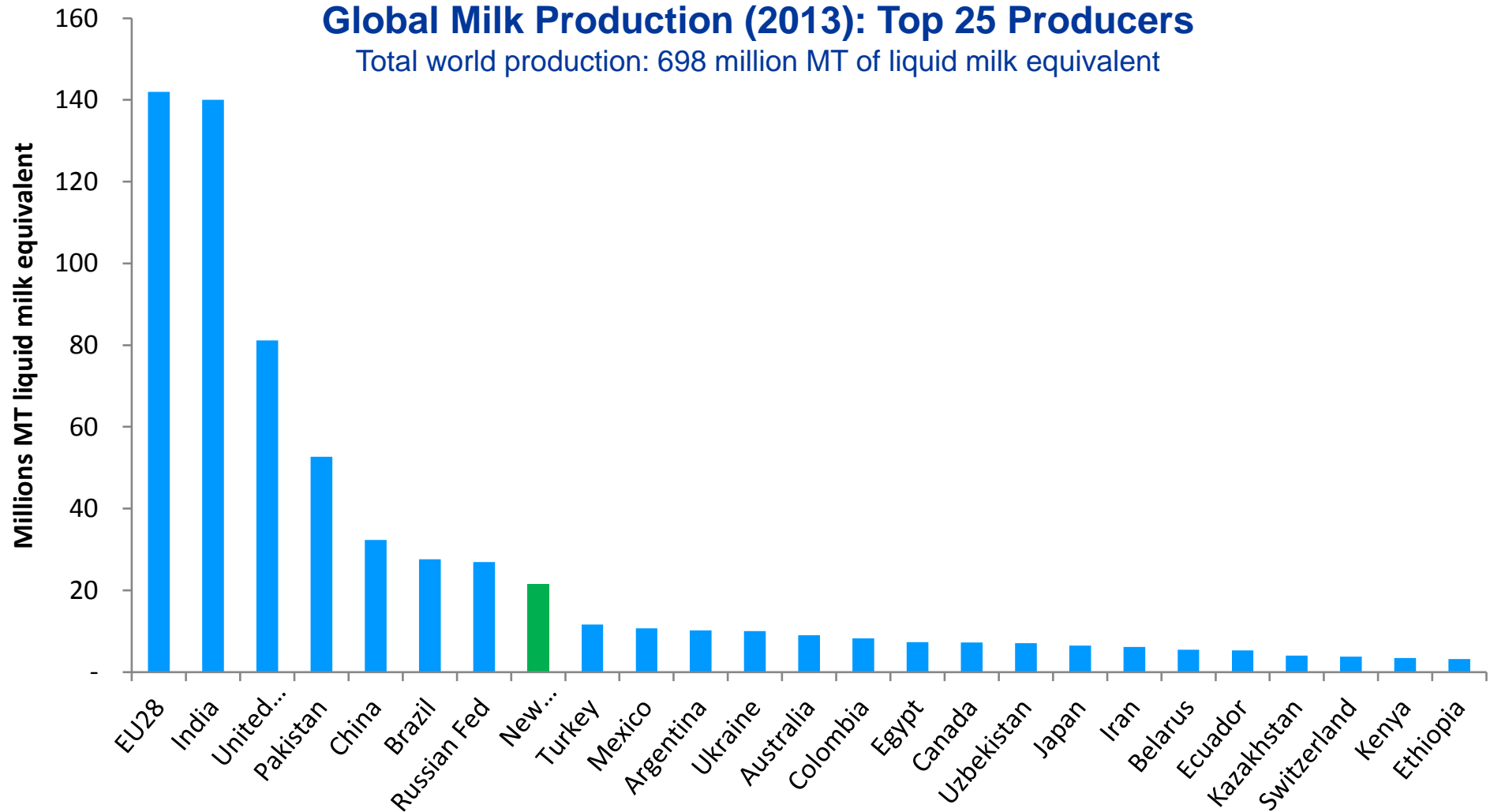
The global dairy industry

Global milk production is led by the EU, India and the US

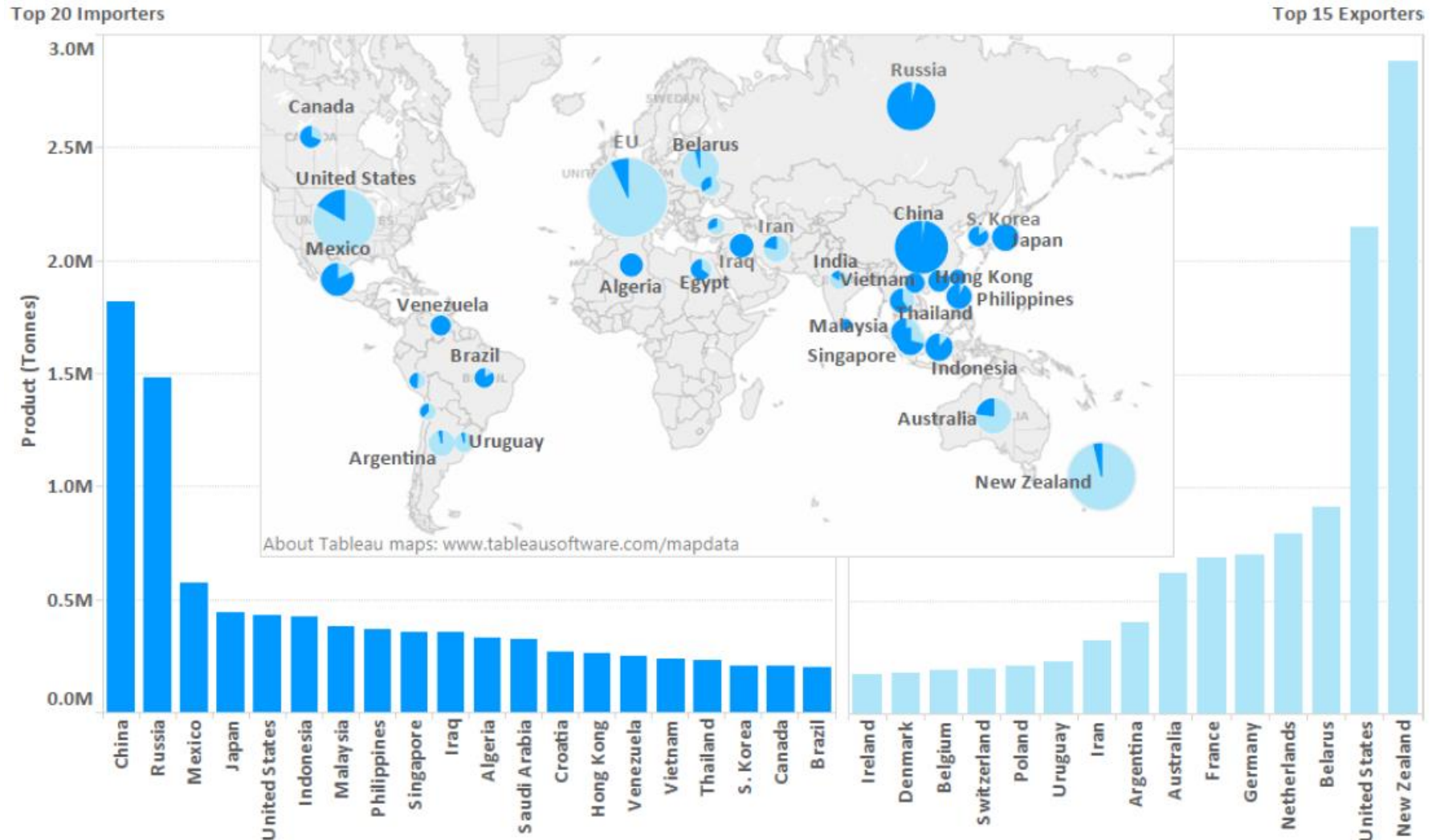


Global Milk Production (2013): Top 25 Producers

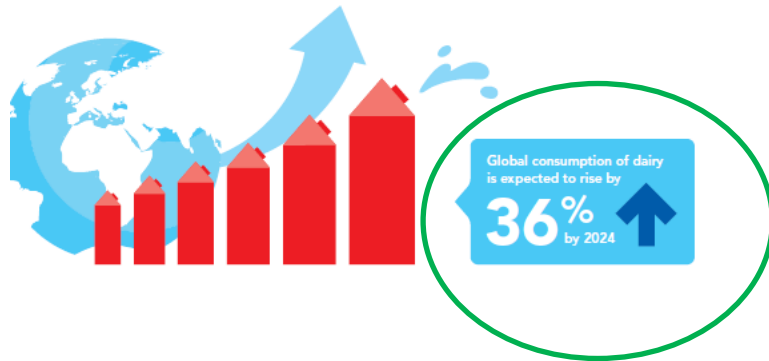
Total world production: 698 million MT of liquid milk equivalent



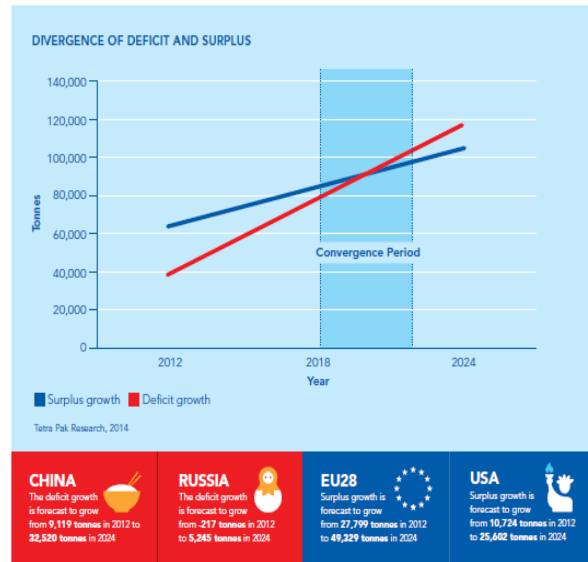
Less than 10% of global dairy production is traded across borders



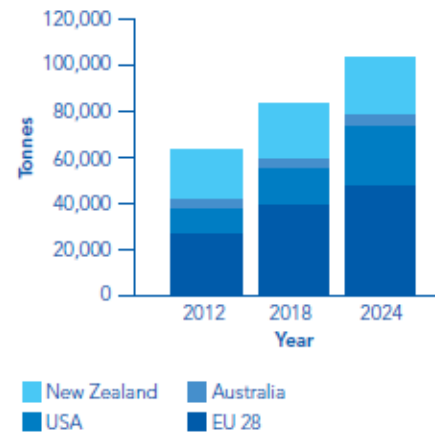
The long term demand outlook for dairy is positive



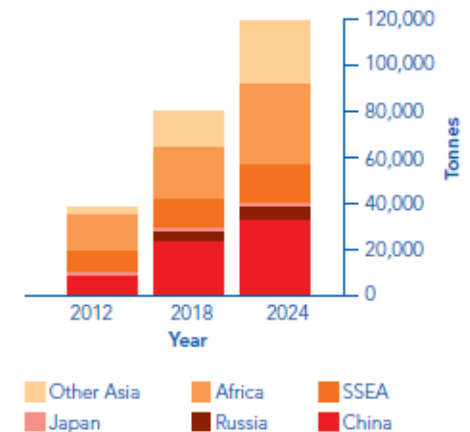
- Consumption of dairy products is expected to rise by **36% over the next decade to in excess of 710 million tonnes** on a liquid milk equivalent basis.
 - Population growth
 - Rising prosperity
 - Urbanization



PREDICTED MILK SURPLUS GROWTH IN MAIN EXPORT REGIONS



PREDICTED MILK DEFICIT GROWTH IN MAIN IMPORT REGIONS



Tetra Pak Research, 2014

There is a clear split between dairy importing and exporting countries



Global demand growth will far exceed NZ's ability to supply, creating opportunities in other milk pools

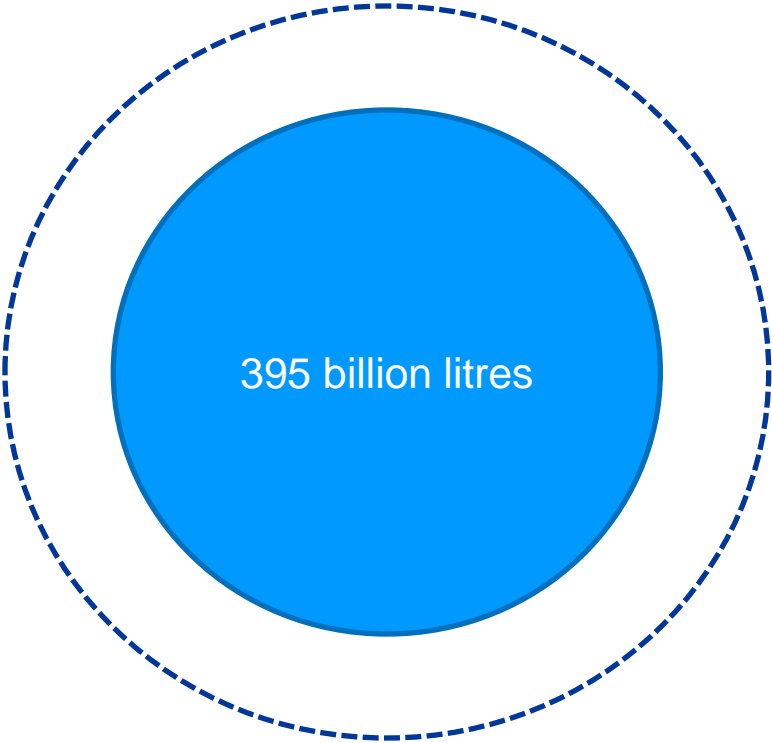
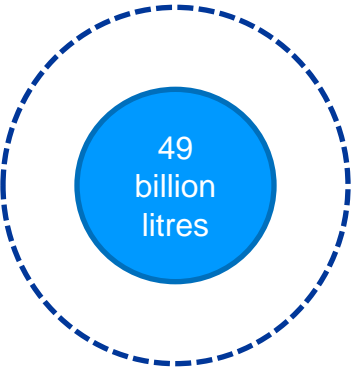


Outlook to 2021

Global Formal Dairy Demand
(3% CAGR)

Globally Traded Dairy
(4-5% CAGR)

New Zealand
milk pool
(2% CAGR)

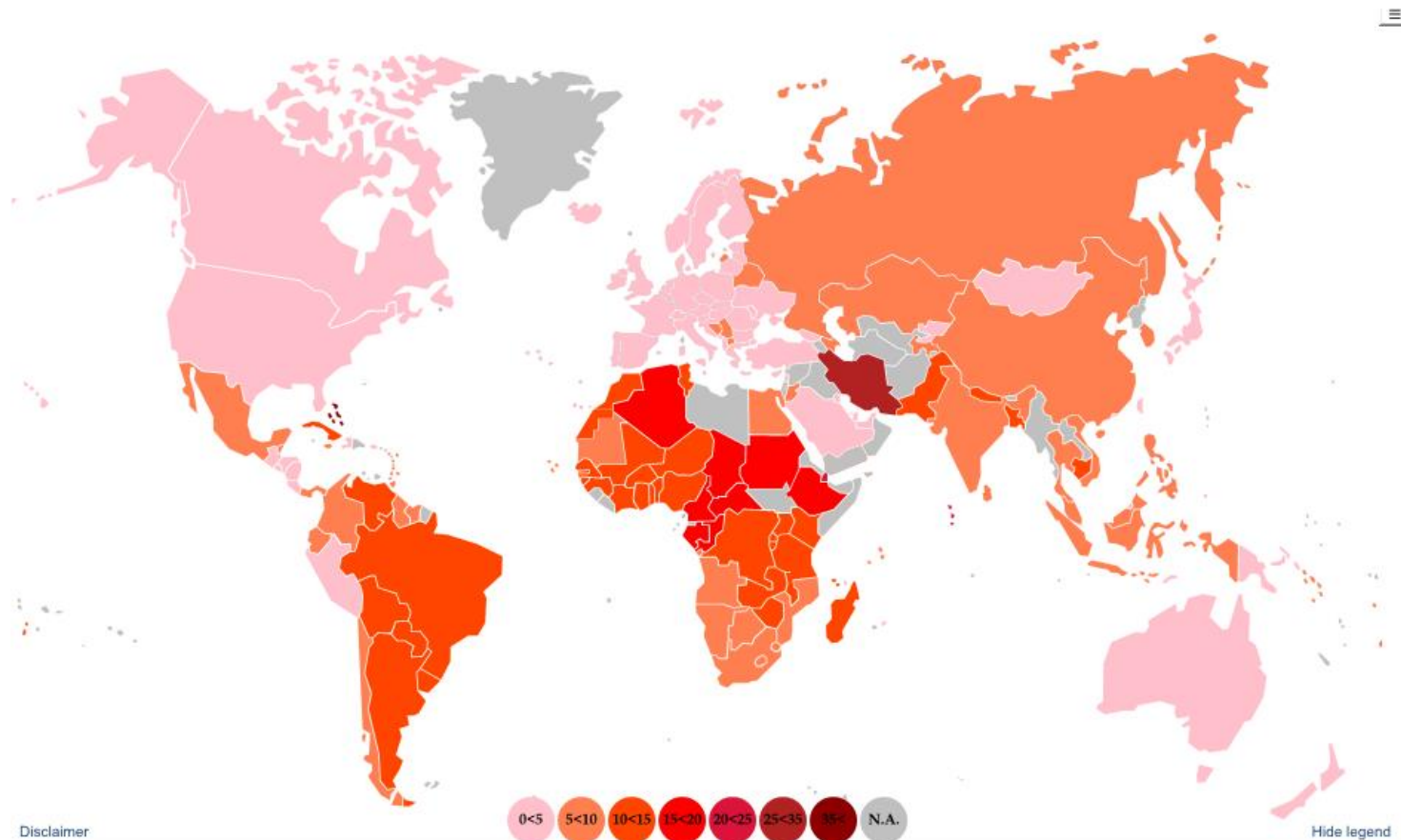


Base year 2012

Paradoxically in a world concerned about “food security” the barriers to agricultural products moving across borders far exceed those for industrial products



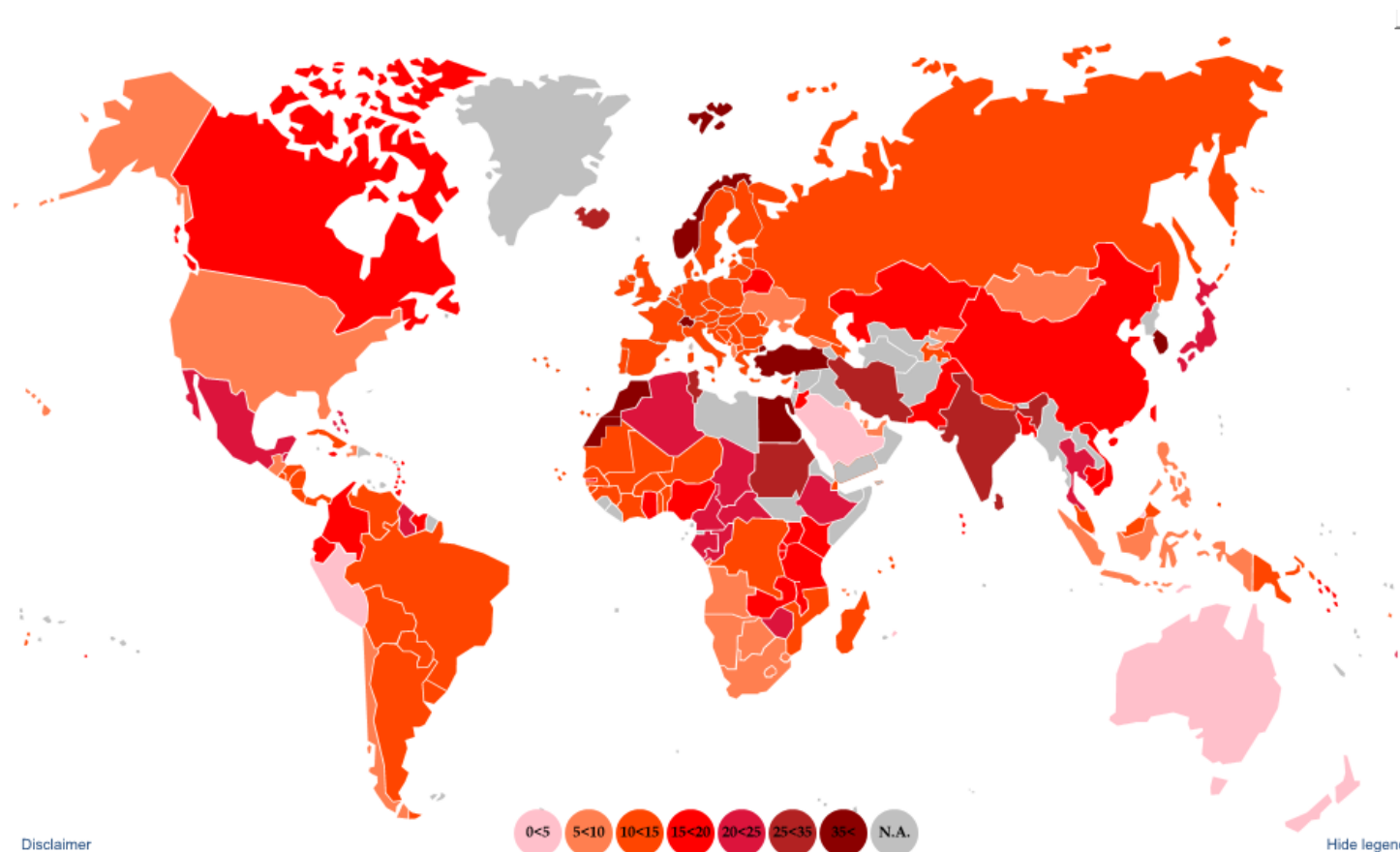
WTO Simple Average of Applied MFN Tariffs for **All Non-Agricultural Products**, all Countries



Agricultural products attract defensive policies as countries seek to protect domestic producers – but trade needs to flow to feed the world's population

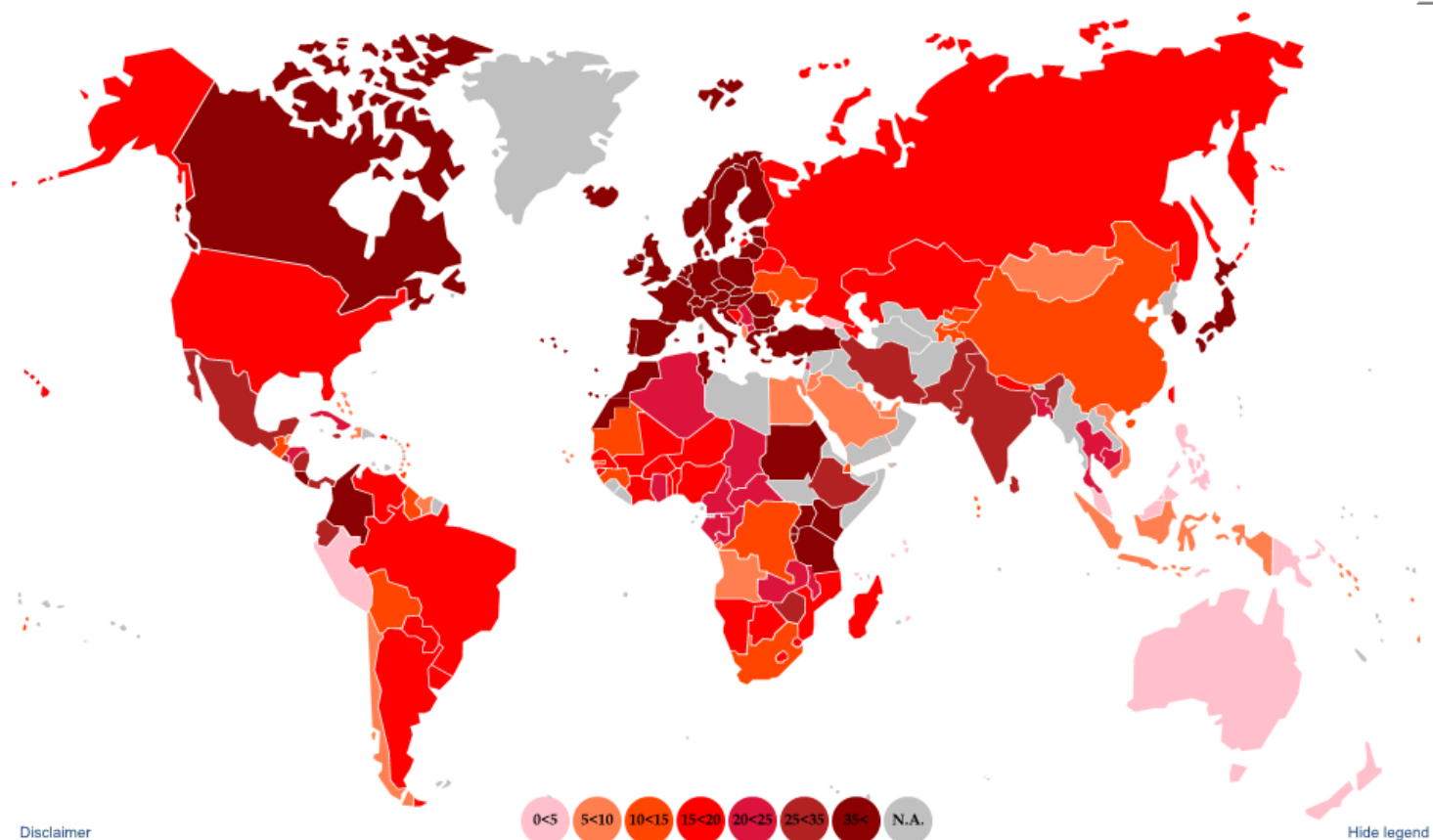


WTO Simple Average of Applied MFN Tariffs for **All Agricultural Products**, all Countries



Dairy is one of the most protected sectors globally

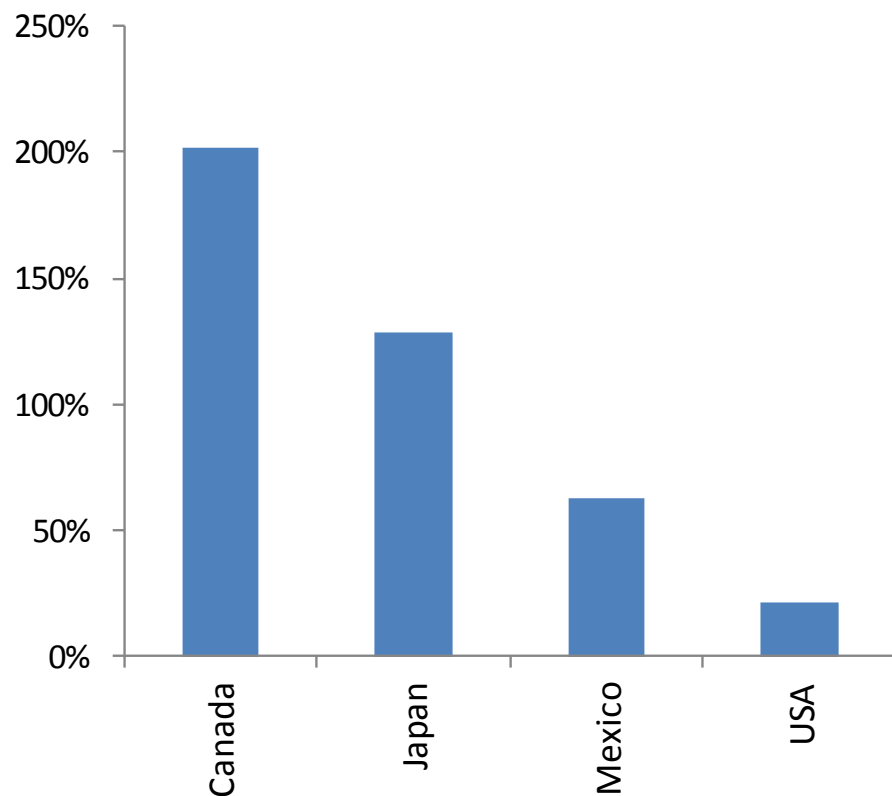
WTO Simple Average of Applied MFN Tariffs for **All Dairy Products**, all Countries



However, high tariffs on agricultural products restrict trade and “non-tariff” barriers proliferate



Tariffs on skim milk powder



Some examples of non-tariff barriers to trade:

- Protectionist policies implemented in the name of ‘food security’
- Price controls
- Product registration requirements
- Factory registration requirements
- Marketing restrictions
- Non-standard product testing requirements



Fonterra

Fonterra at a glance



10,500 shareholders
Farmer owned cooperative
18 billion litres in NZ
3 billion litres outside NZ
~2.5 million metric tonnes ex NZ
76 processing plants
74,000+ delivered orders p/a
100+ countries
18,195 staff globally

Rabobank company ranking by dairy turnover (2014)



Rank	Company	Country of Headquarters	Dairy Turnover (EUR billion)
1	Nestlé	Switzerland	21.3
2	Danone	France	15.2
3	Lactalis	France	14.6
4	Fonterra	New Zealand	11.5
5	FrieslandCampina	Netherlands	11.2
6	Dairy Farmers of America	US	11.2
7	Arla Foods	Denmark/Sweden	9.4
8	Saputo	Canada	6.6
9	Dean Foods	US	6.5
10	Yili	China	5.7

IFCN top 20 milk processor list 2014 – ranked by milk intake



Rank	Company name	Orgin & main operation countries	Milk intake, in mill. t milk equivalents	Estimated turnover per kg milk, in US-\$	Market share in % of world milk production
1	Dairy Farmers of America	USA	27.8	0.5	3.7%
2	Fonterra Co-operative Group	New Zealand/ others	22.0	0.7	2.9%
3	Groupe Lactalis (incl. Parmalat)	France/others	15.0	1.3	2.0%
4	Nestlé	Switzerland/others	14-15*	1.25*	2.0%
5	Arla Foods	Denmark/Sweden/others	12.7	1.1	1.7%
6	FrieslandCampina	Netherlands/others	10.3	1.1	1.4%
7	Dean Foods	USA	10.1	0.9	1.4%
8	Danone	France/others	8-9*	1.9*	1.1%
9	California Dairies	USA	8.1	0.7	1.1%
10	DMK Deutsches Milchkontor	Germany	6.8	1.0	0.8%
11	Saputo	Canada/USA/others	6.0	1.1	0.8%
12	Glanbia Group	Ireland/USA/others	6.0	0.7	0.8%
13	Land O' Lakes	USA	5.4*	0.7*	0.7%
14	Groupe Sodial	France	5.2	1.0	0.7%
15	Amul (GCMMF)	India	4.8	0.5	0.6%
16	Yili Group	China	4.5 - 5*	1.6*	0.6%
17	Unternehmensgruppe Theo Müller	Germany/UK, others	4.4	1.5	0.6%
18	Mengniu Dairy Company	China	4 - 4.5*	1.6*	0.6%
19	Bongrain	France/others	4.2	1.4	0.6%
20	Darigold (Northwest Dairy Association)	USA	3.6	0.6	0.5%
Sum of Top 20			184.2	1.0	25%

Ambition:

To build a globally relevant Co-op which makes a difference in the lives of 2 billion people by 2025



30
Billion
Litres
5-6 Milk
Pools



\$35 Billion
Turnover



No. 1 Ingredients



Top 3
Reputation



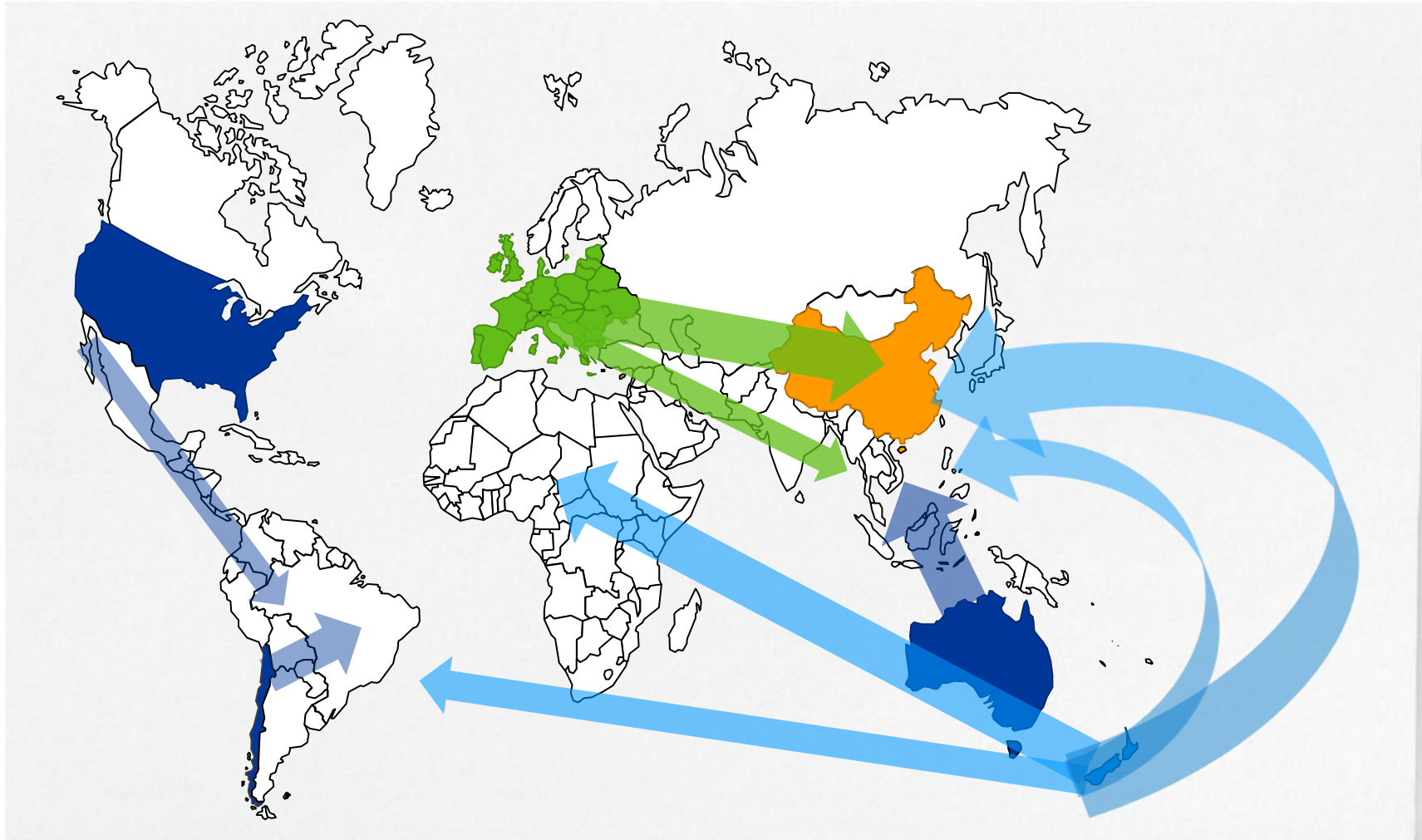
World Class Engagement



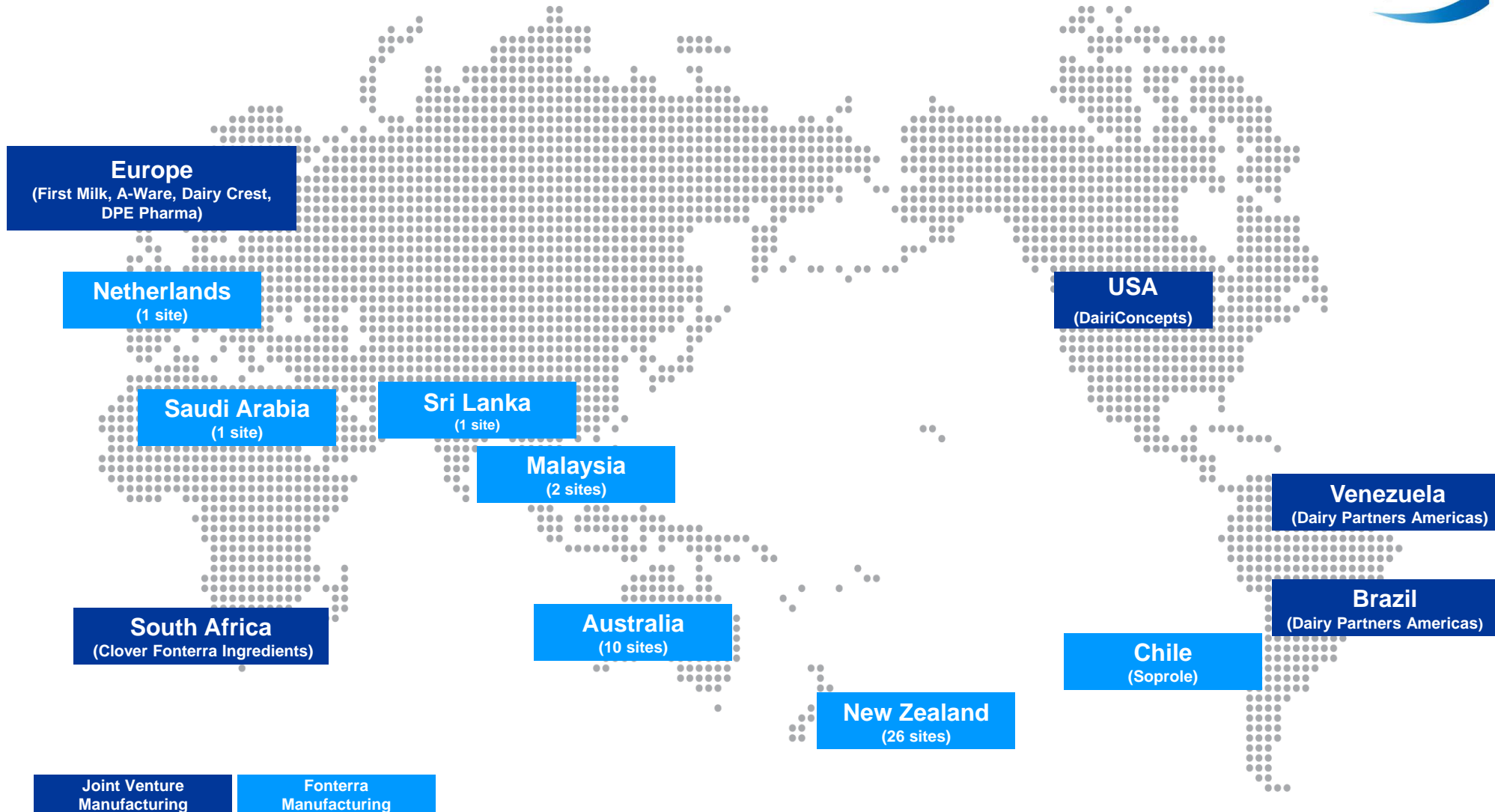
This is
globally
relevant

No. 1 or 2
Consumer Business
In Our 8 Strategic Markets

A multi-hub strategy will match demand growth to our best source of supply



Developing a global manufacturing footprint



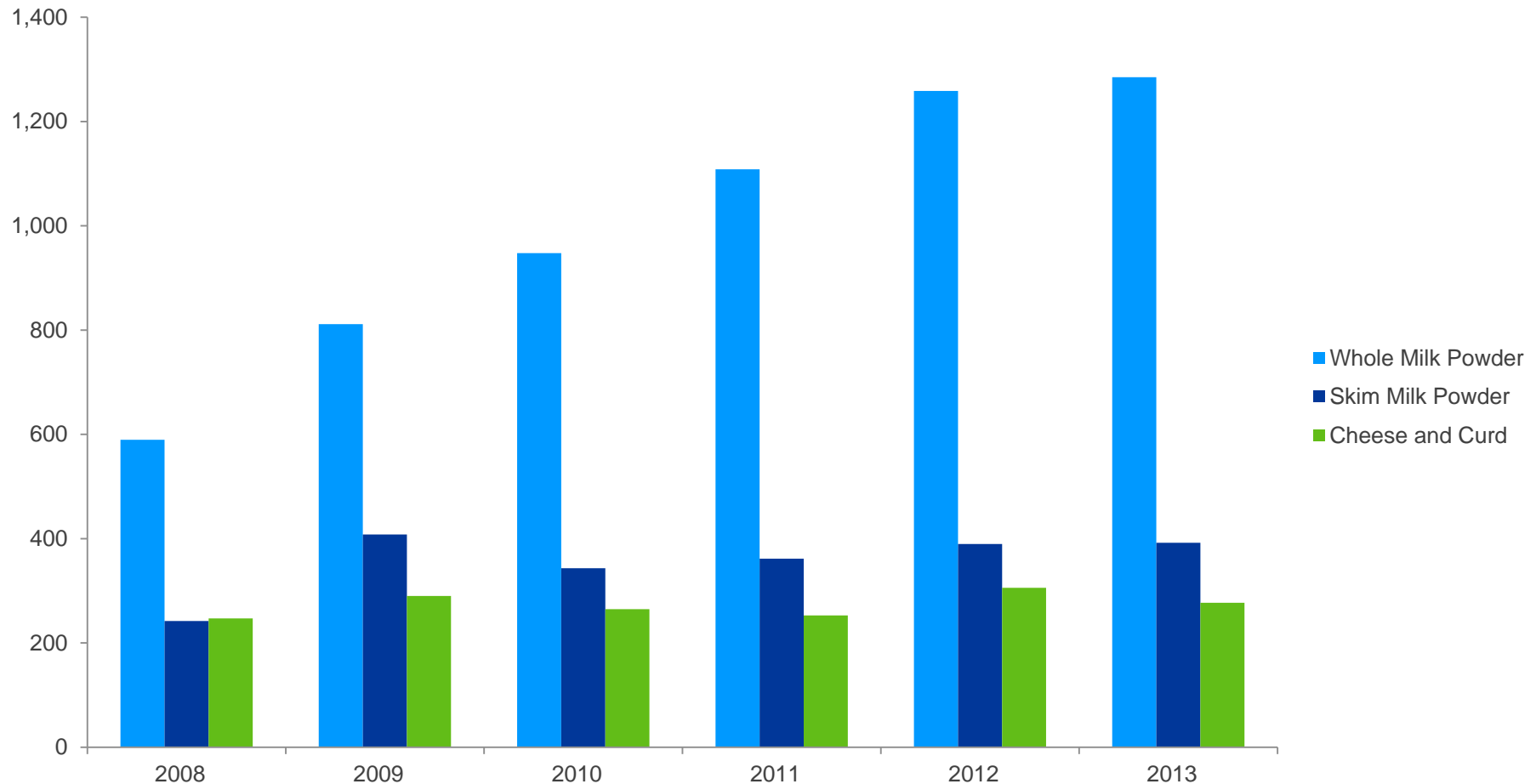


Fonterra's Whey Manufacturing Footprint in Europe

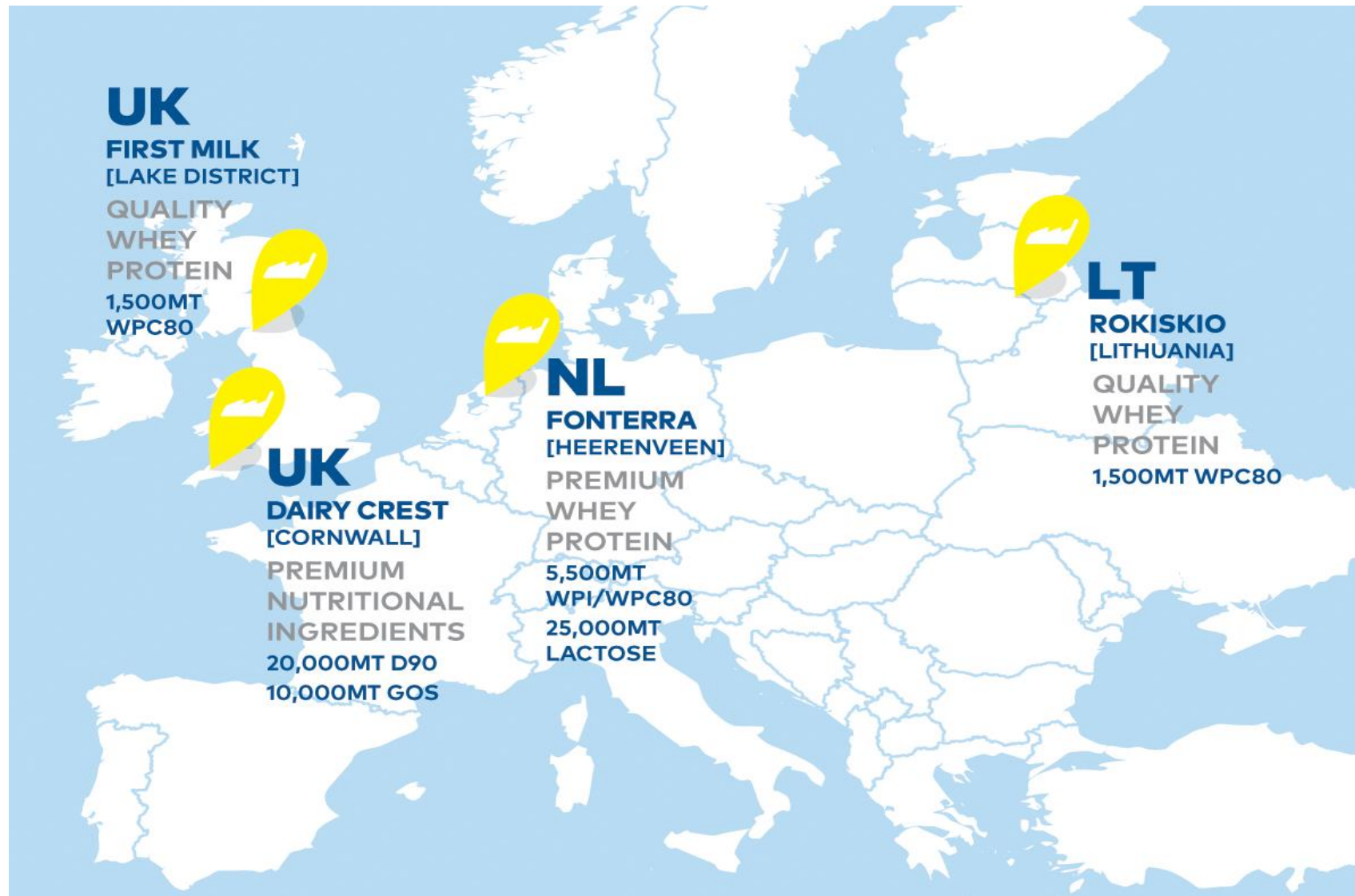
New Zealand whey exports are constrained by limited cheese growth



New Zealand Dairy Exports – selected commodities ('000s MT)



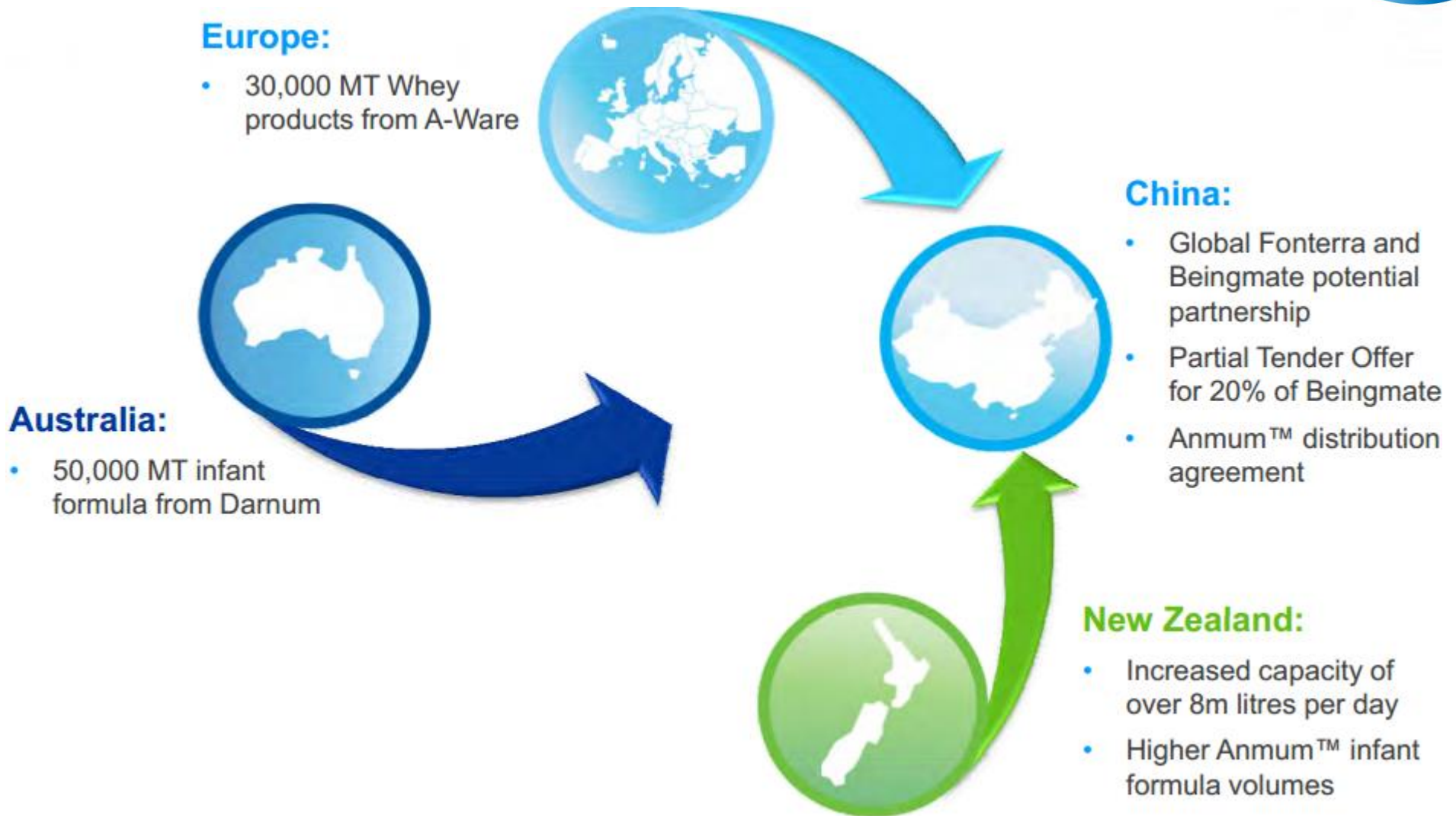
Fonterra's developing whey manufacturing footprint in Europe





Example of Strategy in Action – Fonterra in China

Example of connecting via global multi-hubs



Investing in China milk pool

- Investing in farms that will integrate with downstream positions
- Strong platform to launch from – pipeline of livestock, sites, capability
- Adopting a hub approach, starting with Yutian, supplying Beijing
 - Hub: 4-5 farms in one region
 - Allows flexibility in developing downstream partnerships
- Further expansion, pursued through partnership



Growing to one billion litres by 2020

Our focus is to roll out a new farming hub every 12-18 months

China – key strategic market



- One of the world's largest markets for dairy products
- Fonterra's business in China is already significant, with annual revenue of NZ\$5.5 billion
- China's demand for infant formula is expected to double over the next five years:
 - NZ\$ 18 billion today
 - NZ\$33 billion by 2017
- China is a key market for Fonterra ingredients, foodservice and consumer products





Appendix

Global supply remains strong

European Union

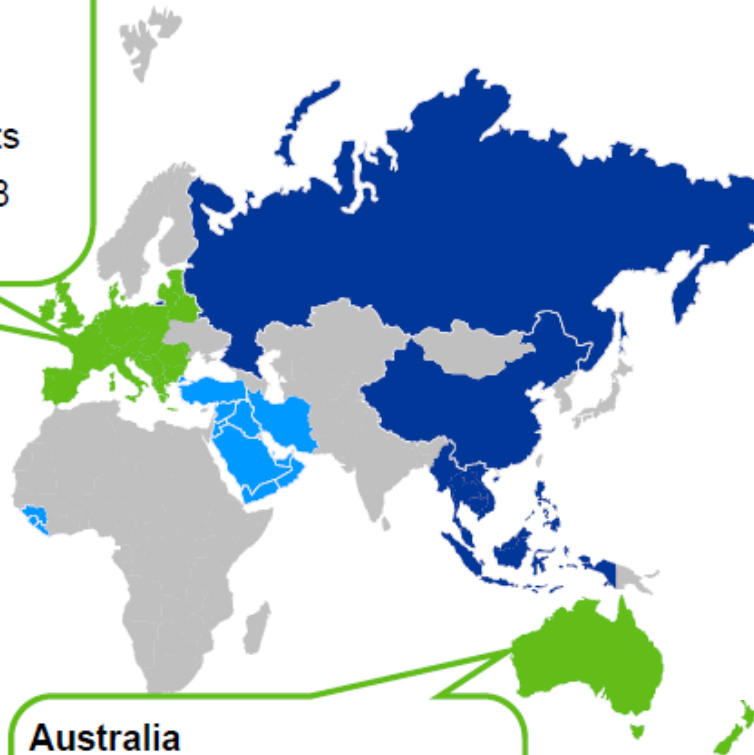
- Milk production up 5% in 2014
- Extra 5.7 billion litres
- Russian trade bans impacting exports
- Private Storage Aid extended until 28 Feb 2015

US

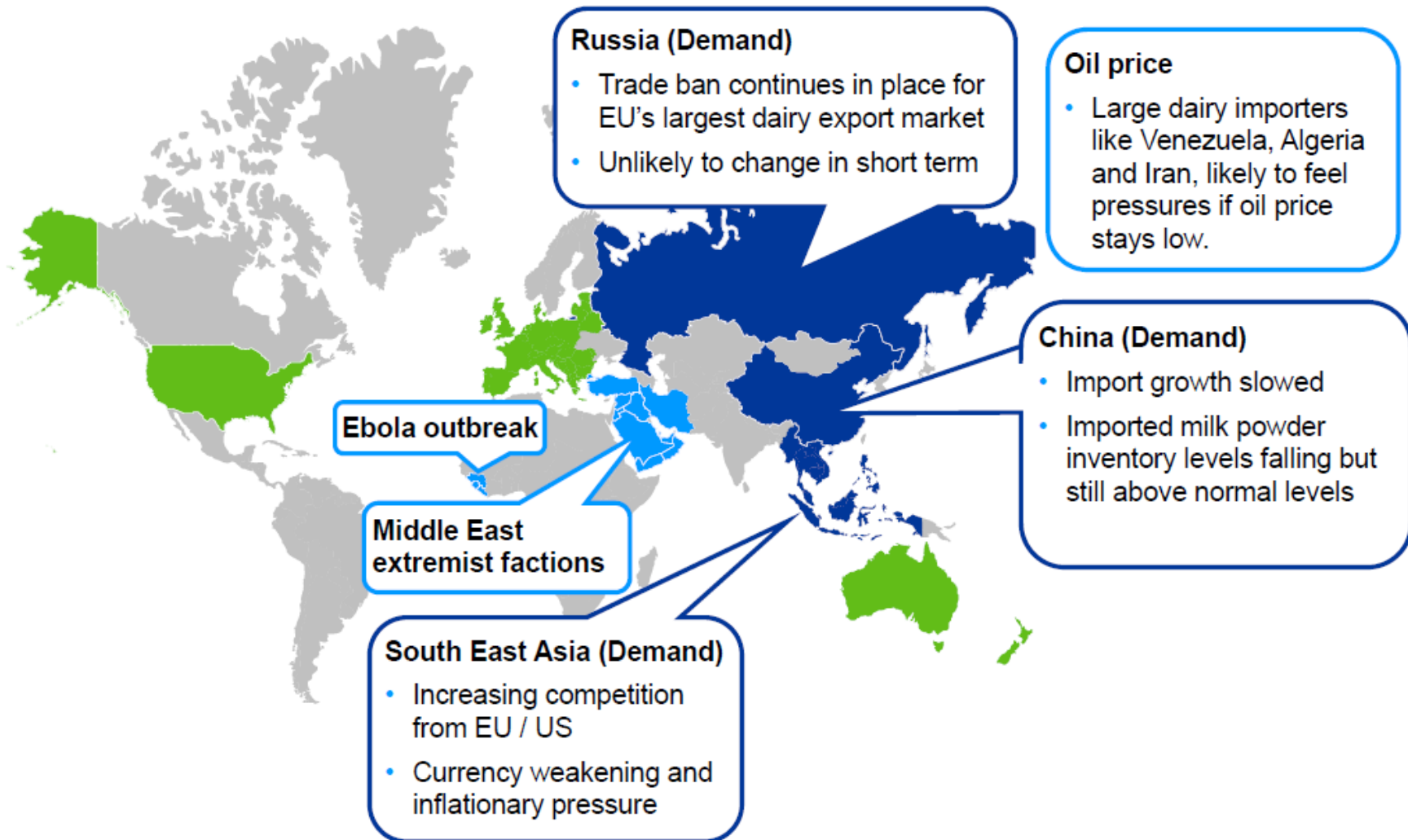
- Milk production up 2% in 2014
- Extra 1.2 billion litres
- Prices slowly converging with global market

Australia

- Milk production up 5% in 2014
- Extra 343 million litres



Challenging global situation in key dairy regions



Fonterra overview



- New Zealand's largest dairy processor
- Consumer and Foodservice operations in China, Asia, Middle East, Latin America, Oceania
- International Farming Ventures – China
- Access to global milk pools
 - Collects ~87% of New Zealand's milk
 - Processes approximately 21 billion litres of milk per year

FY14 revenue (NZ\$)	22.3 billion
FY14 normalised EBIT (NZ\$)	503 million
Shareholders	~10,500
Market cap (NZ\$)	9.4 billion
Credit rating: Standard & Poor's Fitch	A+ stable AA- stable

Fonterra business platforms



Milk Supply



Foodservices

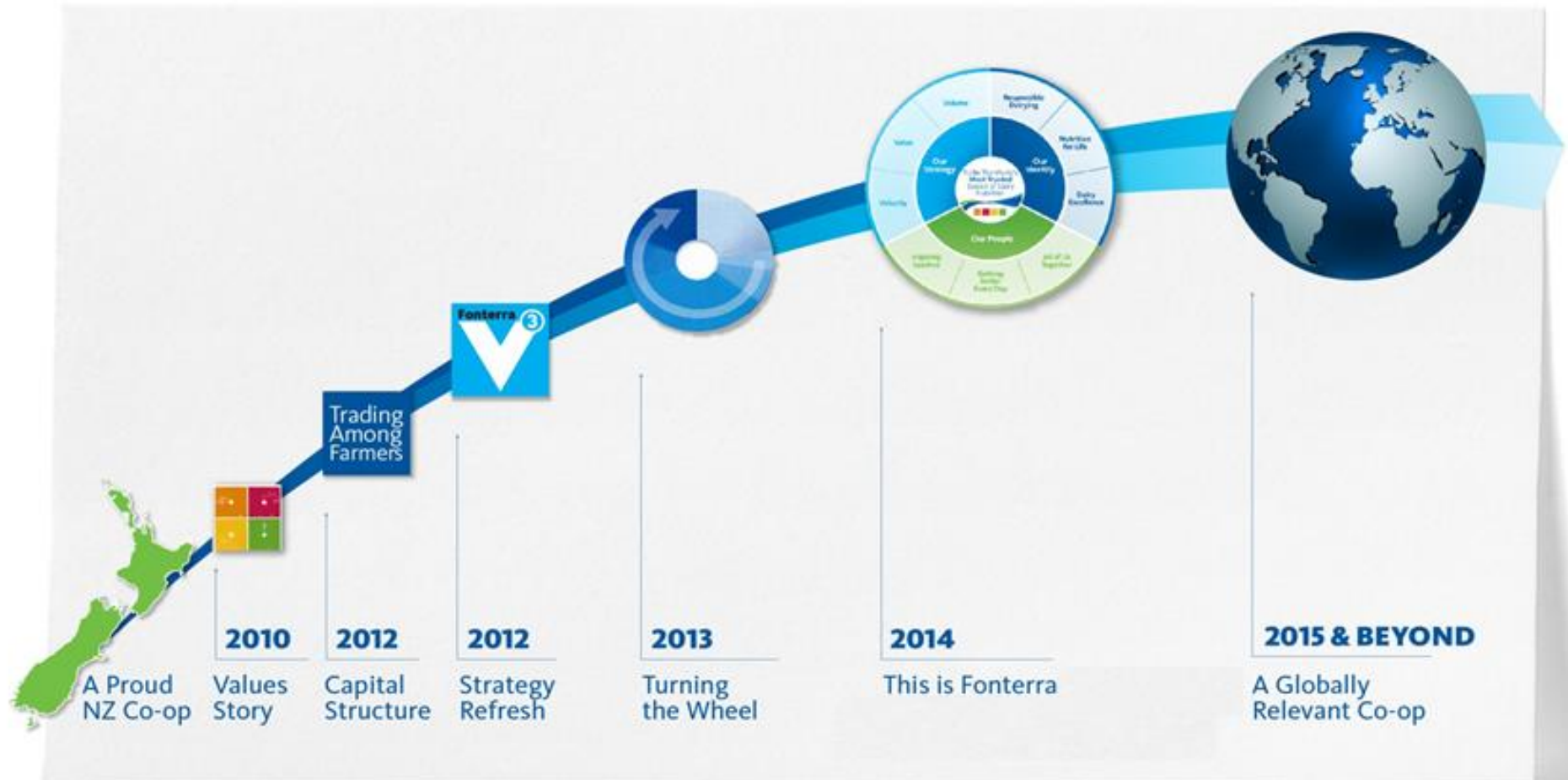


Consumer Brands



Ingredients

Our journey



Our V3 strategy



1. Optimise New Zealand milk



2. Build and grow beyond our current consumer positions



3. Deliver on foodservice potential



4. Grow our Anlene business



5. Develop leading positions in paediatrics and maternal



6. Selectively invest in milk pools

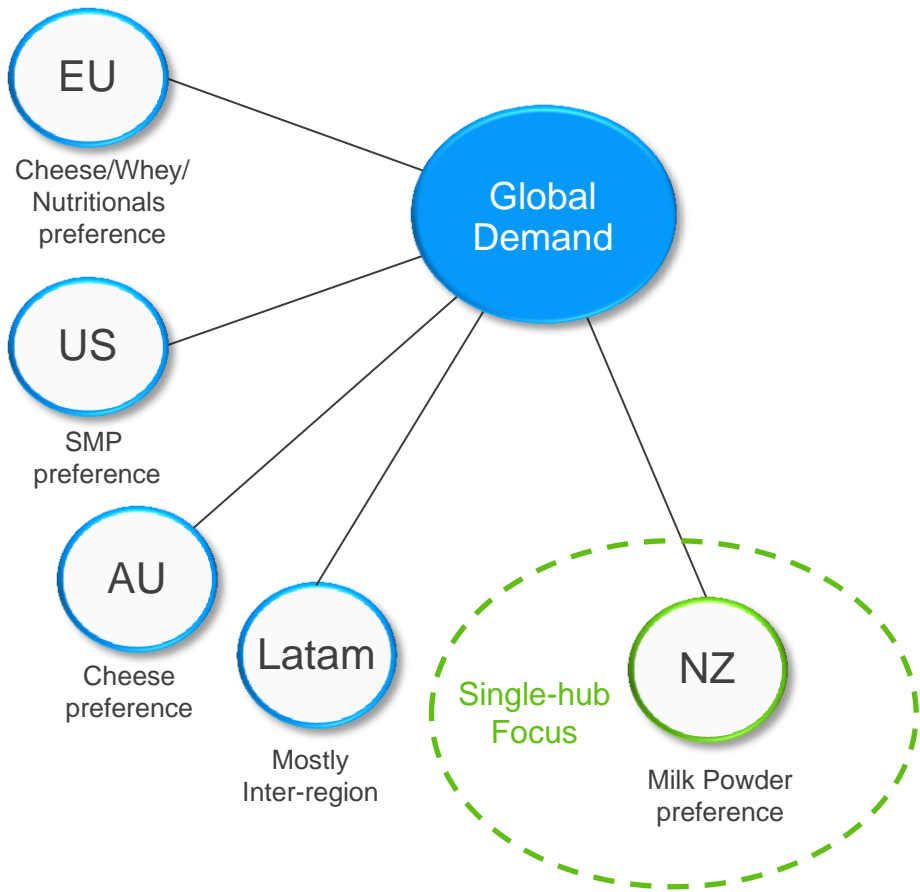


7. Alignment of business & organisation to enable strategy

Global multi-hubs to support global growth platforms



From Single Hub



To Multi-Hub

